

## Message Text

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ACTION H-02

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FM USMISSION USBERLIN

TO SECSTATE WASHDC PRIORITY 1285

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PLEASE PASS OFFICE OF CONGRESSMAN WYLIE ROOM 2447 RAYBURN HOB

DEAR BOB:

I APOLOGIZE FOR THE DELAY IN SENDING A REPORT OF OUR MEETINGS IN LONDON. ACTUALLY, WE CAN GET A LITTLE BETTER PERSPECTIVE OF THE SITUATION IN THE UNITED KINGDOM, SINCE WE HAVE NOW MET WITH OFFICIALS IN PARIS AND WEST GERMANY AS WELL.

IN ENGLAND WE MET WITH MR. GEORGE BLUNDEN, SENIOR OFFICIAL IN CHARGE OF FOREIGN BANK REGULATION OF THE BANK OF ENGLAND, AND WITH THREE OTHER SENIOR STAFF SPECIALISTS OF THE BANK. IN ADDITION WE MET WITH TOP OFFICIALS OF THE FOUR LARGEST BRITISH BANKS.

THE MEETINGS WITH THE BANK OFFICIALS WAS SIGNIFICANT IN THAT IN THE UNITED KINGDOM THERE ARE FIVE MAJOR NATIONAL BANKS WHICH SUBSTANTIALLY CONTROL THE BANKING SYSTEM WITH THE ADVICE, RECEIVED THROUGH DAILY CONSULTATIONS, OF THE BANK OF ENGLAND. BY COMPARISON THE UNITED STATES HAS 14,500 BANKS, ABOUT 60PERCENT OF WHICH BELONG TO THE FEDERAL RESERVE SYSTEM.

INFLATION IS THE NUMBER ONE PROBLEM IN THE UNITED KINGDOM. IT HAS NOW REACHED A LEVEL OF 25 PERCENT, AS COMPARED TO OUR LEVEL OF SOMEWHAT LESS THAN 10 PERCENT. TO UNDERSTAND THE SERIOUSNESS OF THE SITUATION, THE POUND STERLING DROPPED FROM A VALUE OF \$2.20 ON THE DAY WE ARRIVED TO APPROXIMATELY \$2.09 TWO DAYS AFTER WE LEFT. THE POUND HAD DROPPED FROM  
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\$2.60 IN JUNE OF 1973 TO \$2.09 ON AUGUST 8, 1975, THE LOWEST

LEVEL EVER.

FROM MAY 1974 TO MAY 1975 THE RAW MATERIALS INDEX FOR THE UNITED KINGDOM WENT UP ONLY 5 PERCENT, BUT WAGES INCREASED 32 PERCENT. INDUSTRIAL PRODUCTION WAS DOWN 8 PERCENT OVER THE SAME PERIOD. THE TAX ON PERSONAL INCOME STARTS AT 34 PERCENT AND GOES UP AS HIGH AS 83 PERCENT, WITH AN ADDITIONAL TAX OF 15 PERCENT ON DIVIDENDS, SO THAT DEPENDING ON THE AMOUNT OF DIVIDEND INCOME, A PERSON COULD BE TAXED UP TO 98 PERCENT ON SAID DIVIDEND INCOME. THE BASE RATE (PRIME RATE) OF INTEREST WAS INCREASED TO 10 PERCENT WHILE WE WERE THERE. THE TYPICAL INTEREST RATE ON A HOME MORTGAGE HAS REACHED 13 PERCENT.

FOR COMPARISON TO UNITED STATES PRICES ON GASOLINE, FOR EXAMPLE, AN IMPERIAL GALLON, CONVERTED TO A U.S. GALLON, WOULD COST \$1.44. MEMBERS OF CONGRESS OF BOTH PARTIES WERE AMAZED AT THE HIGH PRICES AND PUZZLED AS TO HOW PEOPLE IN THE UNITED KINGDOM COULD COPE WITH THE HIGH COST OF LIVING.

WE HAD LUNCH WITH MEMBERS OF THE HOUSE OF COMMONS OF BOTH PARTIES. OUR HOST WAS MR. ROGER MOTE, A LEADING LABOR PARTY MEMBER OF PARLIAMENT. WE WERE TOLD ABOUT A PROPOSAL BY THE LABOR GOVERNMENT TO REQUIRE EMPLOYERS TO LIMIT WAGE INCREASES TO SIX POUNDS PER WEEK. THE SIGNIFICANT ASPECT IS THAT THE RESTRAINT IS ON EMPLOYERS, NOT ON THE TRADE UNIONS.

THE HOUSE OF COMMONS HAD WORKED UNTIL MIDNIGHT ON THE PREVIOUS NIGHT. THE IMPORTANT EVENT WHICH OCCURRED WAS THE DEFEAT OF THE LABOR PARTY ON A RELATIVELY MINOR AMENDMENT TO A HOUSING BILL WHICH CAUSED SPECULATION THAT IF THE CONSERVATIVE PARTY CHOSE TO CALL FOR A SPECIAL ELECTION, THE CONSERVATIVE PARTY COULD WIN AND OUST PRIME MINISTER WILSON FROM POWER. ALTHOUGH THE PRIME MINISTER'S POWER APPEARED TO BE WEAKENING, SEVERAL CONSERVATIVE MEMBERS WITH WHOM I SPOKE EXPRESSED THE FEELING THAT THE TIME WAS NOT YET RIPE TO MAKE A BID FOR POWER.

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ON TUESDAY, AUGUST 5, WE MET WITH MR. AL RICE, EXECUTIVE VICE PRESIDENT OF THE BANK OF AMERICA AND HEAD OF THE BANK'S OPERATIONS FOR THE EUROPE, MIDDLE EAST, AND AFRICA DIVISION, AND WITH OTHER TOP OFFICIALS OF THE LONDON BRANCH OF THE BANK OF AMERICA.

I CAME TO EUROPE AS THE ONLY REPUBLICAN MEMBER OF THE HOUSE BANKING SUBCOMMITTEE ON FINANCIAL INSTITUTIONS

IN OUR DELEGATION IN ORDER TO LEARN MORE ABOUT THE REGU-  
LATION AND SUPERVISION OF THE ACTIVITIES OF AMERICAN BANKS  
IN EUROPE. THIS EXPERIENCE WILL PROVIDE A BETTER UNDER-  
STANDING OF THE POTENTIAL EFFECTS OF LEGISLATIVE PROPOSALS  
WHICH WOULD TIGHTEN REGULATION OF FOREIGN BANK ACTIVITIES  
IN THE UNITED STATES.

THE POLITICAL AND ECONOMIC STABILITY OF THE UNITED  
KINGDOM IS DEFINITELY A WORRY TO U.S. OFFICIALS. THE  
EVENTS OF THE NEXT YEAR WOULD HAVE A PROFOUND EFFECT ON  
OUR RELATIONS WITH THE U.K. AS A TRADING PARTNER AND ON  
THE ABILITY OF FREE WORLD ECONOMIES TO CONTROL WORLDWIDE  
INFLATION.

VERY TRULY YOURS,  
CHALMERS P. WYLIE  
MEMBER OF CONGRESS

GEORGE

NOTE BY OC/T: NOT PASSED ABOVE ADDRESSEE.

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